



Dave Heineman
Governor

STATE OF NEBRASKA

OFFICE OF THE GOVERNOR
P.O. Box 94848 • Lincoln, Nebraska 68509-4848
Phone: (402) 471-2244 • gov.heineman@gov.ne.gov

FAX TRANSMITTAL FORM

TO:

Secretary Johnson
Organization/Department

Phone Number -

Fax Number - (202) 720-6314

☐ Urgent

☐ Confidential

☒ For Review

☐ Please Reply

FROM:

Dave Heineman
Governor's Office

Phone Number - 402.471.2244

Fax Number - 402.471.6011

E-mail -

Date/Time sent: 1/9

Number of pages (including cover): 10

Message:

Re: Nebraska Farm Bill Listening Session
Feedback

Full report will be delivered on Wednesday
(Greg Ibach is headed to DC)
later this week



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January 9, 2006

The Honorable Mike Johanns
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Secretary Johanns:

I am writing to share with you comments from Nebraska producer and rural development groups, along with individual farmers and ranchers participating in several Farm Bill Listening Sessions I conducted throughout Nebraska last fall. These sessions were modeled after your USDA Farm Bill Forums, and provided several opportunities to gather input and suggestions with regard to current and future U.S. agriculture policy.

I received comments covering a spectrum of agriculture and rural issues and I have organized them into five key categories: commodity price supports; access to foreign markets and other trade issues; opportunities for rural development and the expansion value-added and renewable fuels investments; beginning farmer and rancher programs; and conservation.

Enclosed is a more detailed summary of the comments and recommendations I received, as well as statements submitted by several state agriculture organizations. While some of the ideas and opinions might not necessarily reflect Nebraska's concerns or priorities, I found the input to be valuable overall and I trust that you will as well. I want to take this opportunity to bring to your attention a few areas that I believe to be particularly key to future development across all sectors of the agriculture industry.

With regard to the issues of trade and foreign market access, most Nebraskans who participated in our listening sessions called for the need to expand U.S. access to foreign markets. Many stressed that meaningful gains in market access need to be attained if U.S. producers are asked to accept reductions in agriculture program funding.

Without a doubt, renewable energy has opened new doors to agriculture and rural communities, and Nebraska farmers expressed a strong desire to pursue the development of new value-added projects.

Finally, much concern was expressed about the declining numbers of beginning farmers and ranchers. Some stated that younger producers are placed at a disadvantage by the federal tax code, and several suggestions focused on ways to encourage the sale of farm or grassland to beginning producers through federal incentives.

The series of listening sessions held here reinforced for me how vital sound agricultural policy is to Nebraska's producers and rural communities. It is my strong belief that the next farm bill provides an excellent opportunity to not only update the programs important to producers, but to pursue policies that will form the foundation for new areas of growth in this industry that is so vital to our nation's continued economic progress.

Thank you for your outstanding work on behalf of the nation's agriculture producers. I look forward to working with you to ensure the future vitality of agriculture.

Sincerely,



Dave Heineman
Governor

Enclosures

CC: Senator Chuck Hagel
Senator Ben Nelson
Congressman Lee Terry
Congressman Tom Osborne
Congressman Jeff Fortenberry

The Honorable Saxby Chambliss, Chairman
Senate Committee on Agriculture, Nutrition, and Forestry

The Honorable Tom Harkin, Ranking Minority Member
Senate Committee on Agriculture, Nutrition, and Forestry

The Honorable Bob Goodlatte, Chairman
House Committee on Agriculture

The Honorable Collin Peterson, Ranking Minority Member
House Committee on Agriculture

Summary of comments received during
Nebraska Farm Bill Listening Sessions

Submitted by
Governor Dave Heineman

Listening sessions held:

Lincoln, Neb. – August 31, 2005

Gering, Neb. – October 25, 2005

Kearney, Neb. – November 14, 2005

North Platte, Neb. – November 14, 2005

Norfolk, Neb. – November 17, 2005

Commodity Price Supports

Nebraska grain and soybean organizations were generally supportive of the commodity title of the 2002 farm bill, including the counter-cyclical and marketing loan payments, which activate when prices are low. The Nebraska Wheat Growers stated that the farm bill price supports account for only one half of one percent of the U.S. budget, and that they are necessary to ensure an abundant, affordable domestic food supply.

However, there were many suggestions for improving commodity programs. The Nebraska Soybean Association, the Nebraska Corn Growers, and several individual producers warned that additional emphasis on direct payments could negatively impact land values. The Corn Growers suggested that in future farm bills, direct payments should be based on farming practices rather than strictly on production history, and that direct payments should be directed to farmers, not just landowners. The Nebraska Farm Bureau and several individual participants spoke in favor of basing government support payments on farm revenue rather than crop prices.

The Nebraska Farmers Union called the current farm bill "a colossal failure for family farmers" due to current market prices of feed grains and soybeans, and urged a return to the "traditional, basic price-impacting farm policy management tools" (such as farmer-owned reserves) used prior to the 1996 farm bill. The Nebraska-based Center for Rural Affairs believes the current farm bill is fueling the growth of "mega-farms" and driving family farms out of business by allowing large producers to bid land away from beginning farmers and ranchers. The Nebraska Farm Bureau stated that one flaw of the current farm bill is that it tends to over compensate producers in good crop years, and under compensate them in years when more assistance is needed. As a result, the Nebraska Farm Bureau urged that the next farm bill focus on "assistance to producers instead of production."

A handful of individuals, including a spokesman for the Nebraska State Dairymen's Association, voiced strong support for continuation of the Milk Income Loss Contract program, which was authorized as part of the 2002 farm bill, but recently expired. The Sugarbeet Growers Association called for continuation of the sugar policy established under the 2002 farm bill. And the Nebraska Dry Bean Growers reported that only 37 percent of its members want dry beans to become a program crop in the next farm bill.

Several individual producers spoke of the need to encourage more crop diversification in the next farm bill.

Payment Limits

Several participants called for tighter limits on federal commodity payments. The Center for Rural Affairs suggested implementing tighter payment limits and that the savings be used to increase funding for rural development programs. The Nebraska Women Involved in Farm Economics said that "loopholes" must be removed from the current payment limits law, including those that provide payments to multiple entity farms. The Nebraska Wheat Growers called for the strict enforcement of current payment limits to help prevent the abuse of the farm program. However, the Nebraska Farm Bureau stated that the discussion of payment limits oversimplifies a deeper problem with the farm bill commodity title, which they say is based almost solely on production and price.

Land Values

One of the most frequently mentioned issues during the Nebraska listening sessions was the soaring cost of land in rural America. The lack of tighter payment limits and abuse of Section 1031 of the federal tax code were cited as two possible reasons for higher land values. The Nebraska Farm Bureau stated that most farmers' personal retirement is tied directly to the value of their land and that caution should be exercised so that legislative reforms do not drastically undercut the value of farmland.

Crop Diversification

Many participants advocated that more must be done to encourage farmers to diversify their crops. The 2002 farm bill was criticized by some for its restrictions against specialty crops on base acres. Some individuals in western Nebraska hoped to see more incentives for sun-seed crops, considering their potential in biodiesel production. The Nebraska Alfalfa Marketing Association said much of the traditional alfalfa market has been lost due to ethanol byproducts, and that it has become difficult for alfalfa growers to compete against "feed grain subsidies" and USDA loan programs for on-farm grain storage. One producer stated that the next farm bill should provide adequate assistance for the processing of alternative crops.

Crop Insurance

Most Nebraska grain and soybean organizations hailed federal crop insurance as a major component of the farm safety net. Many groups favored a larger role for revenue protection programs such as the Risk Management Agency's (RMA) Guaranteed Revenue Insurance Program and Adjusted Gross Revenue pilot programs offered in some states. The Nebraska Farm Bureau pointed out that such programs may be more acceptable to the World Trade Organization (WTO). The Corn Growers noted two areas in need of improvement: erosion of insurable yield levels by multi-year natural disaster losses, and equalization of premium support between levels of risk categories.

Some western Nebraska producers cited RMA as having too many compliance issues with regard to prevented planting designations due to drought. In central Nebraska, there was criticism of the crop insurance program for discouraging double cropping – the growing of two separate crops during the same season, in the same field. Other participants noted that specialty crop producers need more crop insurance coverage options.

Conservation Programs

Several Nebraska farm organizations view conservation programs as a valuable tool to help reverse the growing disconnect between agriculture producers and the general public. These programs highlight the environmental benefits that farmers and ranchers provide as stewards of the land. Almost all groups agreed conservation should be a priority in the next farm bill, and there was widespread support for the concept behind the Conservation Security Program (CSP). However, the Corn Growers lamented CSP's "lack of funding" and "exclusionary nature." Also, the Nebraska Farm Bureau questioned how Nebraska – a mostly flat and heavily irrigated state – would fare under a farm program with an increased emphasis of green payments, stating that conservations programs should remain voluntary and incentive based.

The Conservation Reserve Program (CRP) garnered mixed support from listening session participants. While CRP received strong endorsement from some individuals, including wildlife enthusiasts, the Soybean Association recommended the program be downsized and CSP be expanded. Nebraska Grain and Feed Association expressed concern about the effects of idling land under CRP, such as less economic activity for rural communities. The Center for Rural Affairs stated that conservation programs must incorporate community development concerns, suggesting that land-idling programs provide bonus payments for enrollments that allow public access for tourism. The Nebraska Grange urged more funding to idle marginal farm acres, while the Nebraska Farmers Union said CRP should be utilized to help manage grain production. Some individuals called for an increase in CRP rental rates, or permitting the option of growing wildlife-friendly crops on CRP acres, such as flowering plants that can be harvested by florists. The Nebraska Cattlemen called for a continuation of permitting grazing and haying of CRP acres in exchange for reduced conservation payments.

The Grain Sorghum Producers stated their strong support for "water quantity" incentives, saying "high water-use crops" have moved into semi-arid regions and they want to ensure that semi-arid crops are still grown in semi-arid regions.

The Environmental Quality Incentives Program (EQIP) received positive marks from most participants with livestock interests, although the Nebraska Pork Producers stated that current funding levels have not met producers' needs. While the Pork Producers urged expedited delivery of EQIP funds, some individual producers said they want to see application procedures simplified. A handful of individuals expressed interest in allowing private companies and consultants to be allowed to help implement EQIP.

Trade & Foreign Market Access

During Nebraska listening sessions, most state organizations called for the need to expand U.S. access to foreign markets. The Nebraska Farm Bureau stated that most, if not all, of its members would prefer to get their income from a marketplace with no trade barriers, rather than government payments. There was strong support for USDA's Foreign Market Development program and the Market Access Program among all commodity groups. The Nebraska Farm Bureau stated that it would not support changes to the 2002 farm bill before knowing the results of the WTO negotiations. The Nebraska Soybean Association said that "meaningful gains in market access must be attained if U.S. producers are expected to accept reductions" in farm bill funding.

Members of the Independent Cattlemen of Nebraska, Nebraska Women Involved in Farm Economic, the Nebraska Farmers Union and several individual participants voiced support for fair trade and the need for U.S. trade representatives to recognize the cost difference between agriculture production in the United States and developing nations.

The Nebraska Pork Producers and Nebraska Cattlemen supported recent trade agreements such as the Central American Free Trade Agreement (CAFTA), which lowers tariffs on U.S. agriculture products entering foreign markets. Members of the Nebraska Sugarbeet Growers Association were opposed to CAFTA and other trade pacts that allow for additional imports of sugar into the United States. On the other end of the spectrum were groups like the Grain Sorghum Producers who said that nearly half of their crop is dependent on the availability of export markets and called for substantial market access improvements to occur within the WTO framework.

Meat Packer Concentration

Throughout the Nebraska farm bill listening sessions, individual beef producers and cattlemen organizations expressed their concerns over the growing concentration of the meat packing industry. The Nebraska Cattlemen voiced support for legislation to restrict meat packers from processing more than 25 percent of their daily slaughter mix from captive supplies on a per-plant basis. However, the Nebraska Cattlemen stated their opposition to a complete ban on packer ownership, saying such a ban would limit producer options when marketing animals. In addition, the Nebraska Cattlemen support producer access to accurate and timely livestock price reporting information.

The Independent Cattlemen of Nebraska stressed that profitability for producers must be the focus of the next farm bill, and called for stricter enforcement of the 1921 Packers and Stockyards Act. They voiced support for the creation of a competition title to place limits on a packer's ability to own or control cattle in excess of 14 days prior to slaughter and end what was referred to as "unfair practices in producer-packer contracts."

Country-of-Origin Labeling

Country-of-Origin Labeling (COOL) was mentioned often as part of these listening sessions. While there was strong support for source verification and labeling, there were different levels of support for mandatory COOL. The Independent Cattlemen of Nebraska and the Nebraska Women Involved in Farm Economics organization spoke in favor of the mandatory COOL provision contained in the 2002 farm bill, and both called for its immediate implementation. The Independent Cattlemen also voiced support for utilizing individual animal ID as a means to help implement COOL, if the ID program becomes mandatory.

However, the Nebraska Cattlemen stated that the mandatory COOL provisions included in the 2002 farm bill would impose "unnecessary cost and labor burdens" on producers, and expressed concern that current COOL rules would prohibit the use of a national animal identification system in determining the origin of cattle. The Nebraska Cattlemen also object to what they views as the law's harsh penalties for non-compliance - penalties that they argue could deter small retailers from carrying beef products. The Nebraska Cattlemen and the Independent Cattlemen both oppose the application of the USDA grade shield on beef imports, and both groups support simplification of labeling for retail products. In addition, several individuals stated that livestock producers should not be forced to pay for the implementation of any labeling program.

Beginning Farmers & Ranchers

In comments provided by the Center for Rural Affairs, it was noted that the 2002 farm bill authorized funding for linking beginning farmers with retiring producers, but that funding has been withheld. The Nebraska Dry Bean Growers Association stated that younger producers are placed at a disadvantage by Section 1031 of the federal tax code, which allows landowners to sell their high-value acres and defer capital gains taxes by purchasing agricultural land in less populated areas, at prices that beginning producers cannot match. Other participants advocated the need for increased incentives and financing opportunities, particularly for 4-H and Future Farmers of America (FFA) members. A spokesperson for the Nebraska FFA specifically mentioned the need for tax incentives that would encourage landowners to voluntarily sell their agricultural land to beginning producers.

Value-Added Efforts

To revitalize the economy in rural America, the Nebraska Corn Growers expressed support for federal farm policy that emphasizes entrepreneurship over entitlement. The group cited identity preserved grains and farmer owned processing as two examples of success stories. The Corn Growers also mentioned the need to redefine U.S. agriculture's importance beyond food production, stating that the new farm bill must find ways for producers to become more involved in the value-added process.

The Center for Rural Affairs said the 2002 farm bill contained worthwhile value-added programs that could help stimulate entrepreneurship in agriculture. However, those programs – such as the Value-Added Producer Grants Program and the Initiative for Future Farm and Food System – have been inadequately funded, according to the Center. The Soybean Association suggested increasing federal funding to encourage the formation of a new generation of farmer cooperatives, which could produce value-added products such as bio-based plastics or fuels developed from biomass resources.

There were many calls to expand livestock production, which remains the top consumer of America's grains and soybeans. The Corn Growers stated: "If animal agriculture continues to move to other countries because of social and environmental concerns, grain production will quickly follow. This will have major implications for U.S. food security and U.S. competitiveness." The Corn Growers stated that continued funding for livestock and poultry research is essential – including finding ways to make the livestock sector more "environmentally friendly."

Renewable Energy

Most Nebraska farm organizations and individual producers agreed on the need to reduce our dependence on fossil fuels and imported energy, saying that renewable energy has opened new doors of opportunity for Nebraska agriculture and rural communities. The Soybean Growers said the bio-based energy provisions contained in the 2002 farm bill should serve as a springboard for the expansion of agricultural based energy research and development, and called for the creation of a bio-based strategic energy reserve. The Corn Growers stated their support for the Renewable Energy Systems and Energy Efficiency Improvement Programs, as well as the Commodity Credit Corporations Bioenergy Program, all contained in the current farm bill. The Grain Sorghum Producers called for a substantial increase in research funding for ethanol from sorghum.

Rural Development

Many Nebraska organizations and producer participants spoke in favor of focusing greater attention on sustaining rural communities. "The concentration in the number of full-time farmers and depopulation in communities once dependent on agriculture is intrinsically linked," the Corn Growers stated. The Nebraska Grange cited "outmigration" of young people from rural counties as one of the key issues facing agriculture-dependent communities. Several groups recommended more emphasis on value-added education efforts and rural entrepreneurship programs.

The Center for Rural Affairs stated that in the most rural, farm-dependent counties, the majority of new jobs are non-farm proprietorships – people creating their own job by starting a small business. The Center suggested that the next farm bill should focus more attention on rural micro-enterprise grants to help support small entrepreneurship across rural America. The Center also suggested the next farm bill include provisions from the New Homestead Opportunities Act by Senators Chuck Hagel (Nebraska) and Byron Dorgan (North Dakota).

Miscellaneous

The following observations were expressed by participants during Nebraska's farm bill listening sessions. While some of these comments were not directly related to possible farm bill policy, they provide input with regard to USDA programs and/or cooperation with regional groups.

- The Nebraska Pork Producers stated that funding for the national animal ID plan must be a priority of the next farm bill.
- Many producer groups and several individuals advocated increased funding for agricultural research.
- There were a handful of calls from individuals and the Nebraska Grains & Feeds Association for more harmony between state regulations regarding weight and length limits for grain trucks. Synchronizing the standards would need to occur at the federal level.
- Some individuals urged more coordination and integration between Farm Service Agency and Natural Resources Conservation Service offices at the local level.
- An agricultural lender said that EPA regulations and compliance costs are driving smaller and mid-sized livestock producers out of business. A spokesperson for the Independent Cattlemen of Nebraska echoed that sentiment, stating that larger CAFO limits may be necessary to justify environmental compliance costs.
- A northeast Nebraska dairyman said that air quality regulations are a key concern for his operation and that he very much opposes the idea of classifying manure as hazardous waste.

HOGAN & HARTSON
L.L.P.

CLAYTON YEUTTER
OF COUNSEL
(202) 637-5674
CYEUTTER@HHLAW.COM

COLUMBIA SQUARE
555 THIRTEENTH STREET, NW
WASHINGTON, DC 20004-1109
TEL (202) 637-5600
FAX (202) 637-5910
WWW.HHLAW.COM

January 3, 2006

To the Honorable Mike Johanns

Happy New Year! Your highest policy priority for 2005 -- in the minds of a lot of people at least -- was in getting the Japanese and other beef markets re-opened, and you accomplished that. It'll be a fine foundation on which to build in 2006.

I did the inaugural Cochrane Lecture (named after the renowned agricultural economist who was Secretary Freeman's principal advisor) at the University of Minnesota a few weeks ago, and thought you might like to peruse it. So here it is.

While there I also visited with a farmer/veterinarian, Harlan Anderson, who has long been interested and involved in farm policy reform. He'd very much like to come to D.C. and visit with you sometime in the coming year. I'll attach background materials on him. Your call as to whether you wish to carve out time to meet with him.

We've just returned from having the entire Yeutter clan (all 22 of us!) in Nebraska for Christmas. We had good visits with Senators Hagel and Nelson on the plane ride to Omaha, and a nice chat with the Acklies at our home in Lincoln. Duane really enjoyed his stint at the UN.

No need to acknowledge any of this.



Clayton Yeutter



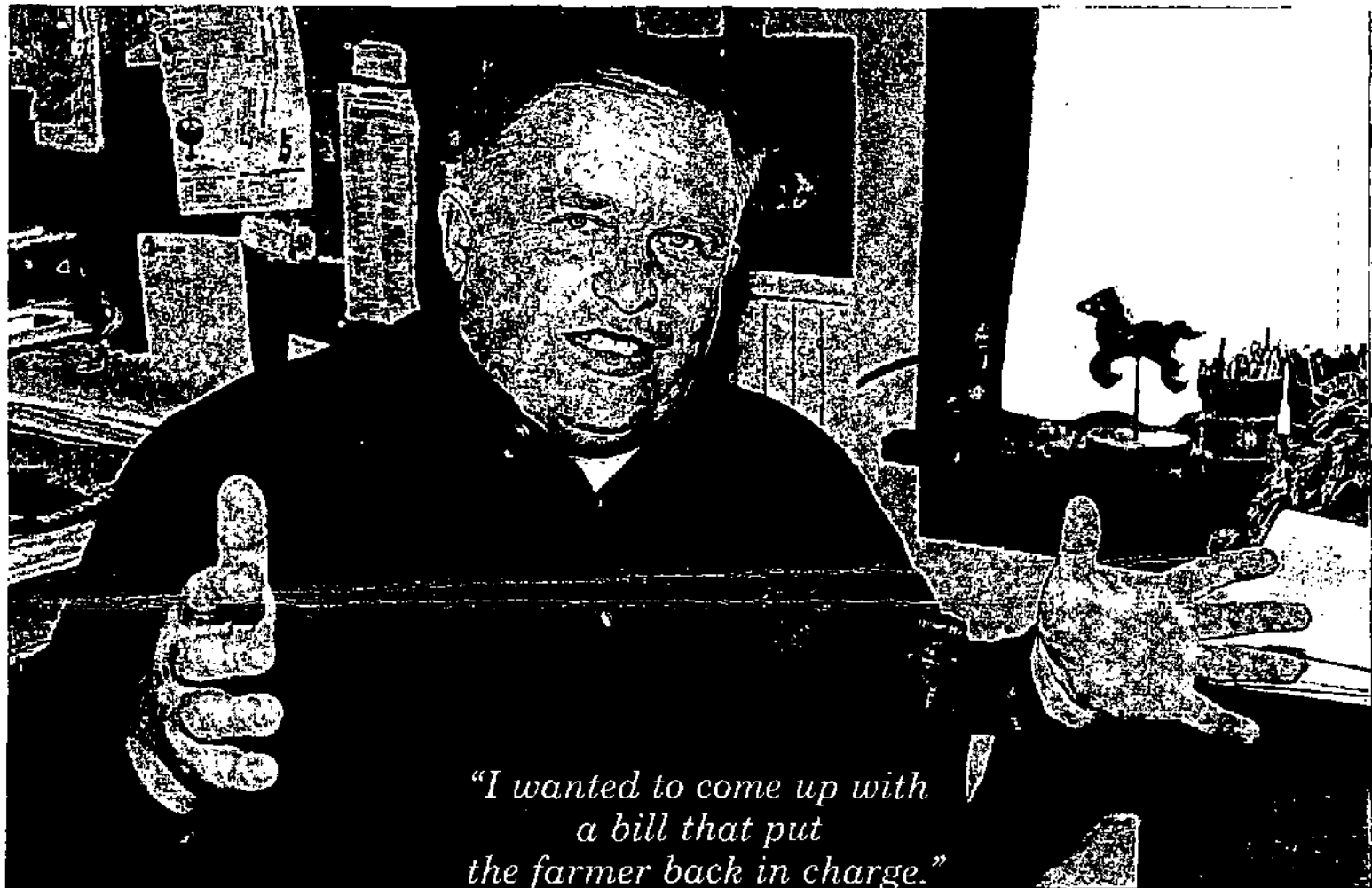
"IDLE ACRES"
HARLAN R. ANDERSON
2379 Quimby Ave. S.W.
Cokato, Minnesota 55321
(320) 286-5682
(320) 286-6420 Fax
Email: idleacres@cmgate.com
Web site: www.idleacres.com



FORMER Secretary Yeutter,

I would like an opportunity
to visit with the Secretary
of Agriculture on what I
learned developing my FARMER
Freedom Act of 1989 as an individual.
I would also like to explain
what happened during the
7 years.

Lastly, I would like to
explain what the next farm
bill needs to bring prosperity
back to rural America. Thank you
R. A. R. R. R.



*"I wanted to come up with
a bill that put
the farmer back in charge."
— Harlan Anderson*

The Farmer Behind Freedom To Farm

The new farm program will have a dramatic, mostly positive, impact on farming.

That bold prediction comes from Harlan Anderson, a Cokato, MN, farmer.

Under the program's freedom-to-farm components, he says, farmers who identify markets and produce for those that offer the best prices will enjoy unprecedented profits.

"If we find out what the customer wants, we'll see profitabili-

**Minnesotan
proposed much of
the new farm
program — in 1987**

by Neil Tietz

ty in agriculture like we've never seen in our lifetime," states Anderson.

He's well-qualified to comment — freedom to farm was his idea. He proposed it in his Farmer Freedom Act of 1987 — a farm bill proposal he wrote because he wasn't satisfied with the 1985 Farm Bill.

His bill called for full planting flexibility and phased-out government payments — the primary components of the recently enact-

ed program. Though it took nine years and a shift to Republican control in Congress, his get-the-government-out-of-farming plan was adopted "hook, line and sinker," he says.

Besides farming 1,000 acres, Anderson is involved in rural real estate development and is a veterinarian. He also is an outspoken advocate of agriculture and has long been involved in government farm policy development.

He served as an information source for then Minnesota Senator Rudy Boschwitz when Boschwitz was working on the 1985 Farm Bill. When that program was enacted, Anderson liked parts of it, including the Conservation Reserve Program. But much of it disappointed him.

"It wasn't really what I thought was best for farmers," he recalls. "I thought it was written more for agribusiness."

For example, he didn't like that the bill required farmers to plant specified acreages of program crops to maintain their bases and qualify for deficiency payments and crop loans.

"We were obligated to plant. And agribusinesses knew we were going to be planting X number of acres, so they knew what was coming," says Anderson. "We couldn't afford not to plant. That's what kept prices low up until the last few months."

In January 1987, Anderson walked the halls of the Capitol, visiting with legislators about the need for a better farm program. He remembers one telling him, "If you really want to affect farm policy, go back to Minnesota and write the best damn farm bill for farmers that you can."

A practicing veterinarian then, Anderson asked his clients what they wanted.

"I found that they agreed on 80% of the issues that face farmers on a day-to-day basis," he says. "I picked out the things that

Look Closely At Program's Merits

Harlan Anderson, the Minnesota farmer who introduced the freedom-to-farm concept, has two concerns about the new farm program.

One is that many farmers won't participate.

"Political rhetoric will scare some farmers away," Anderson predicts. "Some people, in an effort to position themselves politically, have talked about it as a bad farm bill."

Others will shy away because of the required seven-year commitment. But participation will get you seven more years of government payments and the only requirement is that you maintain your conservation practices.

"Most farmers probably are going to maintain their conser-

vation practices anyway," Anderson points out.

"Look at it before you decide not to sign up," he advises.

Anderson's second concern: That farmers won't take full advantage of their newfound farming freedom.

"The only way this farm program can benefit agriculture is if you understand it and use it. You can't sit back and wait for a check from the government. At the end of seven years, you better know how to make money. That means learning how to forward contract and how to find markets."

Freedom to farm is also freedom to fail, and that will happen to farmers who don't hone their marketing skills, Anderson warns. ○

they agreed on and decided to leave the things they didn't agree on for somebody else to work on."

He made 800 copies of the Farmer Freedom Act for members of Congress and others.

"I thought it would pass the next year," says Anderson.

Republican Vin Weber, Anderson's congressman at the time, liked it. But his was the minority party then, and the bill wasn't seriously considered.

Weber, however, is a friend of House Speaker Newt Gingrich, who last year was looking for ways to cut the budget.

"The story is, Weber gave my Farmer Freedom Act to Gingrich and Gingrich's number crunchers came up with a \$13.4 billion savings over seven years. Gingrich handed it to Pat Roberts and said, 'Here's your farm bill.'"

Roberts, a Kansas Republican, introduced the Freedom To Farm Act last August. Although it eventually was vetoed as part of the Budget Reconciliation Bill, its freedom-to-farm components were carried into the final bill, called the Federal Agriculture Improvement and Reform Act.

Anderson could hardly believe it when he found out his proposal had been adopted.

Previous farm programs, he says, "removed the farmer's entrepreneurial spirit." Farmers were tied to their base acres and the "security blanket" provided by target prices and deficiency payments. They grew what the government wanted them to grow instead of riskier crops that had more profit potential.

"I wanted to come up with a bill that put the farmer back in charge," Anderson recalls.

The new program will do that, he says. A wider variety of crops will be grown, and farmers will decide what to plant based on planting-time prices. Much of the production will be sold on contract before planting.

Keen marketing will pay off big. Farmers and their co-ops will have to identify foreign and domestic customers and produce the quantity and quality of product those customers demand.

"We truly now must find out what the customer wants," says Anderson. ○